CONSOLIDATED FINANCIAL STATEMENTS

For the years ended June 30, 2021 and 2020





Mayer Hoffman McCann P.C.

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors

HARVESTERS - THE COMMUNITY FOOD NETWORK

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Harvesters - The Community Food Network & Subsidiary (the "Organization") which comprise the consolidated statement of financial position as of June 30, 2021, and the related consolidated statements of activities and changes in net assets, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the Organization's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Harvesters - The Community Food Network & Subsidiary as of June 30, 2021, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.



Other Matters

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards (the "Uniform Guidance")*, the consolidating statement of financial position, and the consolidating statement of activities are presented for purposes of additional analysis and are not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

Report on Summarized Comparative Information

Mayer Hoffman McCann P.C.

We have previously audited Harvesters – The Community Food Network & Subsidiary's 2020 consolidated financial statements, and our report dated November 9, 2020, expressed an unmodified opinion on those consolidated financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2020, is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

Kansas City, Missouri October 26, 2021

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

June 30, 2021 and 2020

| | | 2021 | | 2020 |
|--|----|----------------------|----|----------------------|
| <u>ASSETS</u> | | | | |
| CURRENT ASSETS | • | 00.400.444 | • | 44005544 |
| Cash and restricted cash | \$ | 22,109,411 | \$ | 14,235,544 |
| Unconditional promises to give, current portion, less allowance for uncollectibles | | 890,275 | | 1,731,465 |
| Investments | | 6,759,983 | | 5,438,595 |
| Accounts receivable | | 135,899 | | 247,366 |
| Inventory | | 11,860,120 | | 10,696,409 |
| Prepaid expenses and other assets | | 344,930 | | 436,240 |
| TOTAL CURRENT ASSETS | | 42,100,618 | | 32,785,619 |
| LONG-TERM UNCONDITIONAL PROMISES TO GIVE, less | | 05.405 | | 400 400 |
| current portion above, net of unamortized discount | | 65,495 | | 103,182 |
| LEVERAGE LOAN RECEIVABLE | | 7,688,500 | | 7,688,500 |
| PROPERTY AND EQUIPMENT, at cost, less accumulated depreciation | | 17,427,319 | | 17,016,607 |
| ANNUITIES | | 12,463 | | 17,630 |
| INVESTMENTS - ENDOWMENT | _ | 1,028,211 | | 804,195 |
| TOTAL ASSETS | \$ | 68,322,606 | \$ | 58,415,733 |
| <u>LIABILITIES</u> | | | | |
| CURRENT LIABILITIES | | | | |
| Accounts payable and accrued expenses | \$ | 2,378,305 | \$ | 1,734,096 |
| Deferred revenue | | - | | 245,260 |
| Refundable advance Current portion of long-term debt | | 3,434,928 105,617 | | 3,790,320 134,445 |
| TOTAL CURRENT LIABILITIES | | | | |
| | | 5,918,850 | | 5,904,121 |
| LONG-TERM DEBT, less current portion above, net of unamortized debt issuance costs | | 11,423,526 | | 11,516,186 |
| TOTAL LIABILITIES | | 17,342,376 | | 17,420,307 |
| NET ASSETS | | 17,012,070 | | 17,120,007 |
| NET ASSETS WITHOUT DONOR RESTRICTIONS | | | | |
| Foodbank | | | | |
| Undesignated | | 34,398,446 | | 27,912,920 |
| Board designated - reserve | | 6,660,013 | | 5,396,000 |
| Total foodbank | | 41,058,459 | | 33,308,920 |
| Contributed food | | 6,789,242 | | 5,664,059 |
| TOTAL NET ASSETS WITHOUT DONOR RESTRICTIONS | | 47,847,701 | | 38,972,979 |
| NET ASSETS WITH DONOR RESTRICTIONS | | 3,132,529 | | 2,022,447 |
| TOTAL NET ASSETS | | 50,980,230 | | 40,995,426 |
| TOTAL LIABILITIES AND NET ASSETS | \$ | 68,322,606 | \$ | 58,415,733 |

CONSOLIDATED STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

For the Year Ended June 30, 2021, with Summarized Financial Information for the Year Ended June 30, 2020

| | | | | | | 2021 | | | | | 2020 |
|---|--|-------------|-------------|-------------|----|-------------|----|-----------|----|-------------|------------------|
| | Without Donor Restrictions With Donor Restrictions | | | | | | | | | | |
| | Contribute | | Contributed | Endowment | | | | | | | |
| | | Operating | | Food | | Operating | R | estricted | | Total | Total |
| OPERATING SUPPORT | | | • | | | | | | " | | |
| AND REVENUE | | | | | | | | | | | |
| Contributions | \$ | 36,690,843 | \$ | - | \$ | 2,018,386 | \$ | - | \$ | 38,709,229 | \$ 29,777,737 |
| Contributed food received | | - | | 124,417,634 | | - | | - | | 124,417,634 | 102,061,201 |
| Handling fees and other revenues | | 543,171 | | - | | - | | - | | 543,171 | 1,273,487 |
| Investment return | | 884,793 | | - | | 255,402 | | - | | 1,140,195 | 287,166 |
| Special events | | 227,914 | | - | | - | | - | | 227,914 | 206,925 |
| Net assets released from restriction | | 1,163,706 | | - | | (1,163,706) | | - | | - | - |
| TOTAL OPERATING | | | | | | | | | | | |
| SUPPORT AND REVENUE | | 39,510,427 | | 124,417,634 | | 1,110,082 | | - | | 165,038,143 | 133,606,516 |
| EXPENSES | | | | | | | | | | | |
| Foodbank program | | 25,837,280 | | - | | - | | - | | 25,837,280 | 17,601,837 |
| Contributed food distributed | | - | | 123,292,451 | | - | | - | | 123,292,451 | 103,616,760 |
| Management and general | | 2,315,762 | | - | | - | | - | | 2,315,762 | 1,757,488 |
| Fund development | | 2,424,051 | | - | | - | | - | | 2,424,051 | 2,133,588 |
| TOTAL EXPENSES | | 30,577,093 | | 123,292,451 | | - | | - | | 153,869,544 | 125,109,673 |
| CHANGES IN NET ASSETS BEFORE DEPRECIATION, INTEREST ATTRIBUTABLE TO DEBT ISSUANCE COSTS, AND LOSS ON DISPOSAL OF ASSETS | | 8,933,334 | | 1,125,183 | | 1,110,082 | | _ | | 11,168,599 | 8,496,843 |
| | | | | | | | | | | | |
| OTHER EXPENSE | | (4.400.004) | | | | | | | | (4.400.004) | (4.404.050) |
| Depreciation expense | | (1,166,361) | | - | | - | | - | | (1,166,361) | (1,134,053) |
| Interest attributable to debt issuance costs | | (13,177) | | - | | - | | - | | (13,177) | (13,177) |
| Loss on disposal of assets | | (4,257) | | - | | | | | | (4,257) | (24,325) |
| TOTAL OTHER EXPENSE | | (1,183,795) | | - | | | | - | | (1,183,795) | (1,171,555) |
| CHANGES IN NET ASSETS | | 7,749,539 | | 1,125,183 | | 1,110,082 | | - | | 9,984,804 | 7,325,288 |
| NET ASSETS, BEGINNING OF YEAR | | 33,308,920 | | 5,664,059 | | 1,366,570 | | 655,877 | | 40,995,426 | 33,670,138 |
| NET ASSETS, END OF YEAR | \$ | 41,058,459 | \$ | 6,789,242 | \$ | 2,476,652 | \$ | 655,877 | \$ | 50,980,230 | \$ 40,995,426 |

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended June 30, 2021, with Summarized Financial Information for the Year Ended June 30, 2020

| | 2021 | | | | | | | 2020 | |
|--|----------|------------------------------------|----|---------------------------------|----|-------------------------------|----|--|--|
| | | Foodbank | M | anagement | | Fund | | | |
| | | Program | а | nd General | De | evelopment | | Total | Total |
| Compensation and benefits Insurance, contracts and leases Fees and dues | \$ | 8,963,873 887,306 132,680 | \$ | 1,418,070 164,638 268,054 | \$ | 1,171,771 51,433 10,850 | \$ | 11,553,714 1,103,377 411,584 | \$ 9,511,926 918,665 345,333 |
| Supplies, printing and postage Repairs, maintenance, and storage Services and staff support | | 369,916 586,751 263,813 | | 122,839 6,320 286,420 | | 839,906 5,717 194,401 | | 1,332,661 598,788 744,634 | 1,281,661 518,713 578,175 |
| Utilities and telephone Vehicle cost and freight Interest expense | | 436,447 1,386,930 168,148 | | 11,834 - 16,856 | | 12,862 - 20,556 | | 461,143 1,386,930 205,560 | 447,098 1,183,221 212,284 |
| Special events Food purchases Grants expense Miscellaneous expense | | - 10,946,238 1,695,178 - | | - - - 20,731 | | 116,555 - - - | | 116,555 10,946,238 1,695,178 20,731 | 201,339 5,288,953 998,700 6,845 |
| Expenses before depreciation and interest attributable to debt issuance costs and contributed food distributed | | 25,837,280 | | 2,315,762 | | 2,424,051 | | 30,577,093 | 21,492,913 |
| Depreciation expense Interest attributable to debt amortization issuance costs Contributed food distributed | | 1,132,949 12,799 123,292,451 | | 17,541 198 | | 15,871 | | 1,166,361 13,177 123,292,451 | 1,134,053 13,177 103,616,760 |
| TOTAL EXPENSES | \$ | 150,275,479 | \$ | 2,333,501 | \$ | 2,440,102 | \$ | 155,049,082 | \$ 126,256,903 |
| Percentage of total expenses | <u> </u> | 96.92% | | 1.51% | | 1.57% | | 100.00% | · · · |
| Percentage of expenses before depreciation and interest attributable to debt issuance costs and contributed food distributed | | 84.50% | | 7.57% | | 7.93% | | 100.00% | |

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended June 30, 2021 and 2020

| | 2021 | | | 2020 |
|---|------|-------------|----|----------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | | | |
| Changes in net assets | \$ | 9,984,804 | \$ | 7,325,288 |
| Adjustments to reconcile changes in net assets to net | | | | |
| cash flows from operating activities: | | | | |
| Net contributed food activity | | (1,125,183) | | 1,555,559 |
| Donated property and equipment | | (10,000) | | (9,500) |
| Loss on disposal of assets | | 4,257 | | 24,325 |
| Realized and unrealized gain on investments | | (922,217) | | (85,350) |
| Depreciation | | 1,166,361 | | 1,134,053 |
| Interest attributable to debt issuance costs | | 13,177 | | 13,177 |
| Change in operating assets: | | 700.077 | | 007.004 |
| Unconditional promises to give | | 783,877 | | 897,381 |
| Accounts receivable | | 111,467 | | 504,486 (106,667) |
| Inventory Prepaid expenses and other assets | | (393,920) | | , , |
| Change in operating liabilities: | | 91,310 | | (205,918) |
| Accounts payable and accrued expenses | | 354,987 | | 519,512 |
| Deferred revenue | | (245,260) | | 245,260 |
| NET CASH FLOWS FROM OPERATING ACTIVITIES | | 9,813,660 | | 11,811,606 |
| NET ONOTH LOW OF LIVING NOTIVITLE | | 3,010,000 | | 11,011,000 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | | |
| Proceeds from sale of investments | | 1,335,561 | | 1,010,555 |
| Purchases of investments | | (1,958,748) | | (1,118,795) |
| Proceeds from sale of investments - other | | 5,167 | | 5,268 |
| Acquisition of property and equipment | | (1,316,551) | | (414,670) |
| Proceeds from sale of property and equipment | | 39,853 | | 9,883 |
| NET CASH FLOWS FROM INVESTING ACTIVITIES | | (1,894,718) | | (507,759) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | | |
| Receipts for capital campaign | | 95,000 | | 115,000 |
| Repayment of long-term debt | | (134,665) | | (194,947) |
| Repayment of accounts payable and accrued expenses | | (101,000) | | (101,011) |
| used to finance property and equipment | | (5,410) | | (68,603) |
| NET CASH FLOWS FROM FINANCING ACTIVITIES | | (45,075) | | (148,550) |
| NET CHANGES IN CASH AND RESTRICTED CASH | | 7,873,867 | | 11,155,297 |
| CASH AND RESTRICTED CASH, BEGINNING OF YEAR | | 14,235,544 | | 3,080,247 |
| | - | | | |
| CASH AND RESTRICTED CASH, END OF YEAR | \$ | 22,109,411 | \$ | 14,235,544 |
| Cash and restricted cash per consolidated | | | | |
| statements of financial position | • | 00.550.004 | _ | 10.001.016 |
| Cash | \$ | 20,556,694 | \$ | 13,881,042 |
| Restricted cash | | 1,552,717 | | 354,502 |
| Total cash and restricted cash | \$ | 22,109,411 | \$ | 14,235,544 |

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(1) Summary of significant accounting policies

Organization - Harvesters - The Community Food Network ("Harvesters") is a not-for-profit, tax-exempt (Section 501(c)(3)) food bank committed to providing food to hungry people in 26 counties in northeast Kansas and northwest Missouri. Harvesters is a charter member of Feeding America and received approximately 29% and 32% of its food through this network for the years ended June 30, 2021 and 2020, respectively. Harvesters collects and purchases food and distributes it to a network of member agencies such as food pantries, soup kitchens, shelters and other non-profit charitable organizations. These agencies provide the food to hungry people in need. Harvesters also educates the community about hunger, hunger relief, and nutrition.

Principles of consolidation - Harvesters - The Community Food Network & Subsidiary's (the "Organization") consolidated financial statements include the accounts of Harvesters and HCFN Title Holding Corporation ("HCFN"). All inter-organizational accounts and transactions have been eliminated. HCFN is a public benefit corporation organized exclusively for the benefit of, to perform the functions of, or to carry out the purposes of Harvesters. In conjunction with this charitable purpose, HCFN owns warehouses in Kansas City, Missouri and Topeka, Kansas critical to Harvesters' mission. HCFN participates in transactions that qualify under the Federal New Markets Tax Credit ("NMTC") program, pursuant to Section 45D of the Internal Revenue Code of 1986, as amended. Through HCFN's participation in the NMTC program, HCFN has secured financing related to eligible capital projects. See additional details related to the NMTC transaction at Note 7.

Basis of presentation - The Organization's consolidated financial statements are prepared on the accrual basis of accounting. Balances and transactions are presented in accordance with the existence or absence of donor-imposed restrictions. The Organization maintains its financial accounts in accordance with the principles and practices of fund accounting. Fund accounting is the procedure by which resources for various purposes are classified for accounting purposes in accordance with activities or objectives of the Organization.

- Net assets without donor restrictions are net assets that are not subject to donor-imposed restrictions. Items that affect (i.e., increase or decrease) this category of net assets primarily consist of program service fees (handling fees) paid on a per-pound basis by member agencies, and related expenses associated with the core activities of the Organization. In addition to these exchange transactions, changes to this category of net assets include certain types of philanthropic support namely, contributions and grants without donor restrictions, including those designated by the Board to function as reserves, as well as contributions and grants with donor restrictions whose donor-imposed restrictions were met during the fiscal year, and income from investments with no restrictions.
- Net assets with donor restrictions are net assets subject to donor-imposed restrictions that may or will be met either by actions of the Organization and/or the passage of time. Items that affect this category of net assets are restricted contributions and grants. Contributions and grants received with donor-imposed restrictions are reported as support in the net assets with donor restrictions class unless the restrictions are both imposed and met in the same year (in which case they are reported as support in the net assets without donor restrictions). These amounts are reclassified to net assets without donor restrictions when such restrictions are met or have expired. Net assets with donor restrictions associated with the capital campaign are to be released from restriction when the assets are placed in service or expenses associated with the campaign are incurred.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(1) Summary of significant accounting policies (continued)

- Net assets with donor restrictions also include endowment funds subject to donor-imposed stipulations, which, as interpreted by the Board of Directors, according to the Uniform Prudent Management of Institutional Funds Act ("UPMIFA") requirements, require the Organization to permanently maintain the fair value of the original gift as of the gift date. The donors of these assets permit the Organization to spend a part of the income earned on these assets, which are subject to appropriation or expenditure, on certain programs. These net assets are permanent endowment funds being held by the Organization such that the Organization has a perpetual interest in the earnings.
- Releases from net assets with donor restrictions during the years ended June 30, 2021 and 2020 were \$1,132,320 and \$1,218,141, respectively, for time restrictions and \$31,386 and \$123,276, respectively, for purpose restrictions. Net assets with donor restrictions consisted of time restrictions totaling \$571,600 and \$1,218,252, purpose restrictions for food distribution programs and endowment funds subject to appropriation or expenditure of \$1,905,052 and \$148,318, and endowment funds not subject to appropriation or expenditure of \$655,877 and \$655,877 at June 30, 2021 and 2020, respectively.

Revenues and other support - Contributions and grants, including unconditional promises to give are recognized in accordance with Accounting Standards Codification ("ASC"), following the guidance described in Accounting Standards Update ("ASU") 2018-08 Topic 958, Not-for-Profit Entities, Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made, which was adopted on July 1, 2019. Under this guidance revenue is considered available for the Organization's general programs unless specifically restricted by the donor. Amounts received that are restricted for future periods or restricted by the donor are reported as restricted contributions and increase net assets with donor restrictions.

Contributions other than cash, including unconditional promises to give and donated materials with clearly measurable bases, are recorded at their estimated fair value at the date of receipt. Revenue from fees and grants from government agencies are recognized as they are earned through expenditure in accordance with the agreement. Conditional promises to give – that is, those with a measurable performance or other barrier and right of return – are not recognized until the conditions on which they depend have been met.

Revenue from contributed food received, as well as the related food distributed expense and the contributed food inventory accounts, are computed by valuing the Organization's respective pounds of food at a weighted average wholesale price per pound as determined by the Feeding America national food bank network. The Organization treats contributed food as contributions without donor restrictions.

Revenue from contracts is recognized in accordance with ASC Topic 606, *Revenue from Contracts with Customers*, which was adopted on July 1, 2019 using the modified retrospective transition method. Revenue recognition is based on the five-step model: (i) identify the contract with the customer; (ii) identify the performance obligation in the contract; (iii) determine the contract price; (iv) allocate the transaction price; and (v) recognize revenue (or as) each performance obligation is satisfied. If it is determined that a contract with an enforceable right and obligation does not exist, revenues are deferred until all criteria for an enforceable contract are met.

Revenues from program service fees (handling fees) are recognized as earned from member agencies who receive food. The Organization applies the right to invoice practical expedient to contract revenue, and recognizes revenue as invoiced, since the Organization's right to payment is for an amount that corresponds directly with the value provided to customers based on the Organization's performance to-date.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(1) Summary of significant accounting policies (continued)

The Organization records special events revenue equal to the fair value of direct benefits to donors, and contribution income for the excess received when the event takes place.

Donated assets are reflected as contributions at their estimated fair value at the date of receipt. A substantial number of volunteers have donated thousands of hours during the year ended June 30, 2021, which do not meet the requirements of the Not-For-Profit Topic of the Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") related to revenue recognition of contributions received and, accordingly, are not recorded in these consolidated financial statements. The Organization received \$75,030 and \$118,587 for the years ended June 30, 2021 and 2020, respectively, for donated services and goods other than contributed food.

Cash - Cash consists of available cash balances on deposit at financial institutions. At times, the Organization maintains deposits in financial institutions in excess of federally insured limits. At June 30, 2021 and 2020 the Organization's uninsured balances totaled \$21,859,411 and \$13,985,544, respectively. The Organization has not experienced any losses in such accounts and management believes the risk of loss is negligible.

Restricted cash - Amounts included in restricted cash represent those funds required to be set aside by donor restriction. These restricted cash amounts are reflected as assets on the consolidated statements of financial position and as donor restricted funds. The restriction will lapse when the Organization's donor restrictions are satisfied.

Investments and Investments - Endowment - Investments and Investments - Endowment consist of money market funds, equities, and fixed income securities which are recorded at their fair value.

Investment return - Investment return is reported on the consolidated statements of activities and changes in net assets and consists of interest, dividends, realized and unrealized gains and losses, and fees.

Annuities - Annuities consists of an annuity investment which is recorded at fair value.

Accounts receivable - Accounts receivable balances result from government reimbursements and handling fees earned. On a periodic basis, the Organization evaluates receivables and establishes an allowance based on history, past write-offs, collections, and current economic conditions. Receivables are written off when it is determined that all collection efforts have been exhausted.

Inventory - Contributed food is valued on a first-in, first-out basis using a weighted average wholesale price per pound as determined by the Feeding America national food bank network. For the years ended June 30, 2021 and 2020, contributed food was valued at \$1.79 and \$1.74 per pound, respectively. Purchased food is valued on a first-in, first-out basis.

Property and equipment - Property and equipment are stated at cost or the fair value at date of gift for donated assets, less accumulated depreciation. Acquisitions over \$5,000 with a useful life greater than two years are capitalized. Depreciation is computed using the straight-line method over the estimated useful lives of the assets as follows:

| <u>Assets</u> | Estimated <u>Useful Lives</u> |
|---|----------------------------------|
| Building and building improvements Land improvements | 7 - 30 years 15 years |
| Equipment | 3 - 10 years |

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(1) Summary of significant accounting policies (continued)

Amortization - In April 2015, the FASB issued ASU No. 2015-03, *Simplifying the Presentation of Debt Issuance Costs*, which requires that debt issuance costs related to a recognized debt liability be presented in the consolidated statements of financial position as a direct reduction from the carrying amount of that debt liability, consistent with debt discounts. During the years ended June 30, 2021 and 2020, amortization amounted to \$13,177 and \$13,177, respectively.

Functional expenses - The costs of providing the various programs and other activities have been summarized on a functional basis in the consolidated statements of activities and changes in net assets. Certain costs have been allocated among the programs and supporting services benefited as depicted in the accompanying statements of functional expenses. Expenses that can be identified with a specific program and support are allocated directly according to their natural expenditure classification. Other expenses that are common to several functions are allocated by management's estimate of resources devoted to the programs or support source. Specifically, those costs are allocated by department, a full time equivalent measure, or by square footage. Direct benefit to donor costs have been included in fund development costs on the consolidated statements of functional expenses as the associated costs are not material in relation to the consolidated financial statements taken as a whole.

Income taxes - Harvesters and HCFN are exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. South Park is a single member limited liability company and is considered a disregarded entity for federal income tax purposes. Accordingly, no provision has been made for federal and state income taxes.

The Organization's present accounting policy for the evaluation of uncertain tax positions is to review those positions on an annual basis. A liability would be recorded in the consolidated financial statements during the period which, based on all available evidence, it is more likely than not that the tax position would not be sustained upon examination by taxing authorities and the liability would be incurred by the Organization. No accrual has been recorded at June 30, 2021 or 2020, as management does not believe any material uncertainties exist.

Refundable advance – Refundable advance and expense are recorded in accordance with ASC Topic 958, *Not-for-Profit Entities, Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made,* which was adopted on July 1, 2019. Under this guidance, grants are recognized in the accompanying consolidated financial statements when the Organization has an obligation to transfer assets to a grantee.

Use of estimates - The preparation of consolidated financial statements in conformity with generally accepted accounting principles in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of consolidated financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Summarized comparative information - The consolidated financial statements include certain prior year summarized comparative information in total but neither by net asset class nor by natural classification of expenses by function. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States. Accordingly, such information should be read in conjunction with the Harvesters' consolidated financial statements for the year ended June 30, 2020, from which the summarized information was derived.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(2) <u>Unconditional promises to give</u>

Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed using interest rates applicable to the years in which the promises are received. The discount rate used in valuing unconditional promises to give was 5% for the years ended June 30, 2021 and 2020. Amortization of the discounts is included in contributions revenue.

| | 2021 | | | 2020 |
|---|------|---|----|--|
| Unconditional promises to give - capital campaign Unconditional promises to give - operations Unconditional promises to give - government Subtotal Less: Unamortized discount | \$ | 25,000 659,138 303,697 987,835 | \$ | 120,000 1,091,877 659,588 1,871,465 |
| Subtotal Less: Allowance for uncollectibles | | (7,065) 980,770 (25,000) | | (11,818) 1,859,647 (25,000) |
| Net unconditional promises to give | \$ | 955,770 | \$ | 1,834,647 |
| Amounts due in: | | | | |
| Years ending June 30, | | | | |
| 2022 2023 2024 | | | \$ | 915,275 31,971 40,589 |
| Total unconditional promises to give | | | \$ | 987,835 |

(3) Conditional promises to give and refundable advances

Conditional promises to give at June 30, 2021 and 2020 amounted to \$3,681,094 and \$4,193,877, respectively. At June 30, 2021 and 2020, \$3,434,928 and \$3,790,320, respectively, of food was received in relation to federal grants where a barrier to entitlement and a right of return still exists. As such, these food amounts received are reflected as refundable advances within the consolidated statements of financial position until the conditions have been substantially met or waived by the donor. The conditional promises to give will be recognized as revenue within the consolidated financial statements when such amounts become unconditional.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(4) <u>Investments</u>

Investments are comprised of the following:

| | June 30, | | | | | | |
|--------------------------|----------|-----------|----|-----------|--|--|--|
| | | 2021 | | 2020 | | | |
| Fixed income pool: | | | | | | | |
| Short term | \$ | 1,882,078 | \$ | 1,520,501 | | | |
| Intermediate | | 1,631,776 | | 1,314,866 | | | |
| Total fixed income pool | | 3,513,854 | | 2,835,367 | | | |
| Money market pool | | 1,093,112 | | 842,615 | | | |
| Equity pool: | | | | | | | |
| Domestic allocation | | 2,366,864 | | 1,885,220 | | | |
| International allocation | | 814,364 | | 679,588 | | | |
| Total equity pool | | 3,181,228 | | 2,564,808 | | | |
| Total investments | \$ | 7,788,194 | \$ | 6,242,790 | | | |

Investment return is comprised of the following:

| | Years ended June 30, | | | | | | |
|------------------------------|----------------------|-----------|----|----------|--|--|--|
| | 2021 | | | 2020 | | | |
| Interest and dividend income | \$ | 236,049 | \$ | 218,939 | | | |
| Investment fees | | (18,070) | | (17,123) | | | |
| Unrealized (loss) gain | | 585,771 | | (42,480) | | | |
| Realized gain | | 336,445 | | 127,830 | | | |
| Total investment return | \$ | 1,140,195 | \$ | 287,166 | | | |

The Organization maintains the above investment portfolios at the Greater Kansas City Community Foundation (the "Community Foundation"), and specified itself as beneficiary at the time of the transfer. Amounts will be distributed to the Organization upon the Community Foundation's receipt of the written recommendation of two authorized signers of the Organization. The Community Foundation will monitor distributions requested by the Organization to ensure amounts are being distributed in accordance with the Organization's intentions. The investment portfolios above are included in Investments and Investments - Endowment on the consolidated statements of financial position as of June 30, 2021 and 2020, respectively.

FASB ASC 820, Fair Value Measurements and Disclosures provide the framework for measuring fair value. ASC 820-10 establishes a three-level valuation hierarchy for disclosure of fair value measurements. The valuation hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

The three levels are defined as follows:

Level 1 - Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(4) <u>Investments</u> (continued)

Level 2 - Inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.

Level 3 - Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The Organization endeavors to utilize the best available information in measuring fair value. The fair values of the Organization's investments can be determined using the following valuation methods as of June 30, 2021 and 2020:

| | | | | June 3 | 30, 20 | 21 | | |
|---|----|-------------------------------------|----|-------------|--------|-------------------------------------|----|-------------|
| | F | air Value | L | evel 1 | | Level 2 | Le | evel 3 |
| Money market pool Equity pool Fixed income pool | \$ | 1,093,112 3,181,228 3,513,854 | \$ | - - - | \$ | 1,093,112 3,181,228 3,513,854 | \$ | - - - |
| | \$ | 7,788,194 | \$ | - | \$ | 7,788,194 | \$ | |
| | | _ | | June : | 30, 20 | 20 | | |
| | | air Value | L | evel 1 | | Level 2 | Le | evel 3 |
| Money market pool Equity pool Fixed income pool | \$ | 842,615 2,564,808 2,835,367 | \$ | - - - | \$ | 842,615 2,564,808 2,835,367 | \$ | - - - |
| | \$ | 6,242,790 | \$ | - | \$ | 6,242,790 | \$ | - |

(5) Leverage loan receivable

During the year ended June 30, 2017, as a part of the NMTC transactions listed in Note 7 below, Harvesters issued a \$7,688,500 loan to USBCDC Investment Fund 200, LLC (the "Fund"). The loan has an interest rate of 1% and requires quarterly interest payments beginning July 1, 2017 and requires quarterly interest and principal payments beginning July 1, 2024, with all unpaid principal and accrued interest due June 30, 2047.

(6) Property and equipment

| | June 30, | | | | | | |
|------------------------------------|----------|------------|----|------------|--|--|--|
| | 2021 | | | 2020 | | | |
| Cost | | | | | | | |
| Land and land improvements | \$ | 667,828 | \$ | 667,828 | | | |
| Building and building improvements | | 16,813,875 | | 15,968,474 | | | |
| Equipment | | 9,597,445 | | 9,401,520 | | | |
| Total cost | | 27,079,148 | | 26,037,822 | | | |
| Less: Accumulated depreciation | | 9,651,829 | | 9,021,215 | | | |
| Net property and equipment | \$ | 17,427,319 | \$ | 17,016,607 | | | |

Depreciation expense charged to operations for the years ended June 30, 2021 and 2020 was \$1,166,361 and \$1,134,053, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(7) New market tax credit financing transaction

During the year ended June 30, 2017 Harvesters sponsored a financing of its Kansas City, Missouri and Topeka, Kansas site expansions under the NMTC program. NMTC financing allows organizations such as HCFN to receive low-interest loans or investment capital from certified community development entities ("CDEs") which allows third-party investors to receive Federal income tax credits based upon the amount of total investment in projects in certain "low income communities".

As an inducement to such third-party tax credit investors and a CDE to invest in the project, Harvesters committed \$7,688,500 via a leverage loan to the Fund, a Missouri limited liability company. As fully described within Note 5, the leverage loan due to the Fund of \$7,688,500 is reflected as a note receivable on the consolidated statement of financial position at June 30, 2021 and 2020. U.S. Bancorp Community Development Corporation ("USBCDC") invested \$5,000,000 in the Fund and another \$5,000,000 in USBCDC Investment Fund 201, LLC, which subsequently merged with the Fund. The Fund is a wholly owned subsidiary of USBCDC.

The Fund then contributed \$5,000,000 to CBKC CDC SUB-CDE 41, LLC ("CDE 41") and \$5,000,000 to CBKC CDC SUB-CDE 42, LLC ("CDE 42"), the entities having the authority to provide the Federal income tax credits to investors, as a capital contribution. CDE 41 and 42 are 99.99% owned by the Fund and are .01% owned by CBKC CDC, LLC, the organization that manages the CDEs. The Fund also made an additional \$1,000,000 capital contribution to CDE 41.

CDE 41 made qualified low income community investments (the "QLICIs") in HCFN, in the form of loans: (i) \$4,193,728 (Loan A) and (ii) \$1,686,272 (Loan B). CDE 42 made QLICIs in HCFN in the form of loans: (i) \$3,494,773 (Loan A) and (ii) \$1,405,227 (Loan B). Such loans are secured by the assets and property of HCFN, which consists of cash, land, buildings, and equipment financed by the loans under the program. As part of the financing, Harvesters contributed the Kansas City, Missouri facility and Topeka, Kansas assets to HCFN. Harvesters and HCFN then entered into four leases – two real estate leases for both the Kansas and Missouri properties and two equipment leases for assets related to these properties. The real estate leases are for 25 years and the equipment leases are for 62 months.

Harvesters entered into a put and call agreement with USBCDC during the year ended June 30, 2017. The agreement grants USBCDC the right to exercise the requirement that Harvesters purchase UBCDC'S interest in the Fund and in CDE 41 and 42 for a put exercise price of \$1,000.

This right may be exercised upon the occurrence of the first day following the end of the tax credit investment period, which is defined by Section 45D of the Internal Revenue Code of 1986 as the date on which the investment is initially made and each of the six anniversary dates of such date thereafter. This right may also be exercised upon the occurrence of a NMTC recapture event, which is a disallowance of any NMTCs attributable to any Qualified Equity Investment ("QEI") in the Community Development Entity ("CDE"), the proceeds of which were or will be used to fund the QLICIs or related fees, but only to the extent such recapture or disallowance is the direct or indirect result of certain events as disclosed in the HCFN Guaranty Agreement.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(8) <u>Long-term debt</u>

| | June | 30, | |
|---|-----------------|-----|-----------|
| | 2021 | | 2020 |
| Harvesters | | | |
| Term loan B with US Bank, with an original balance of \$2,000,000, and interest accruing at 4.75%. Quarterly payments of interest only through June 2018, converting to quarterly payments of principal and interest of \$39,083 beginning September 30, 2018 with all unpaid principal and accrued interest due at maturity on June 30, 2024. The loan is collateralized by Harvesters' leverage loan receivable. | \$ 1,091,746 | \$ | 1,226,411 |
| <u>HCFN</u> | | | |
| Term loan A with CBKC CDC SUB-CDE 41, LLC, with an original balance of \$4,193,728, and interest accruing at 1.38%. Quarterly payments of interest only through June 2024, converting to quarterly payments of principal and interest of \$53,285 beginning September 1, 2024 with all unpaid principal and accrued interest due at maturity on June 30, 2047. The loan is collateralized by the assets and personal property of | 4,193,728 | | 4,193,728 |
| HCFN. | 4,193,728 | | 4,193,728 |
| Term loan B with CBKC CDC SUB-CDE 41, LLC, with an original balance of \$1,686,272, and interest accruing at 1.38%. Quarterly payments of interest only through May 2024, with a balloon principal payment due in June 2024, and converting to quarterly payments of principal and interest of \$20,354 beginning July 1, 2024 with all unpaid principal and accrued interest due at maturity on June 30, 2047. The loan is collateralized by the assets and personal property of HCFN. | | | |
| | 1,686,272 | | 1,686,272 |
| Term loan A with CBKC CDC SUB-CDE 42, LLC, with an original balance of \$3,494,773, and interest accruing at 1.38%. Quarterly payments interest only through June 2024, converting to quarterly payments of principal and interest of \$44,404 beginning September 1, 2024 with all unpaid principal and accrued interest due at maturity on June 30, 2047. The loan is collateralized by the assets and personal property of | | | |
| HCFN. | 3,494,773 | | 3,494,773 |

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(8) <u>Long-term debt</u> (continued)

| | | June 30, | | | | |
|---|--|----------|------------|----|--|--|
| | | | 2021 | | 2020 | |
| Term loan B with CBKC CDC SU original balance of \$1,405,227, and a Quarterly payments of interest only balloon principal payment due in Jurquarterly payments of principal beginning July 1, 2024 with all unpinterest due at maturity on June collateralized by the assets and pers | through May 2024, with a ne 2024, and converting to and interest of \$16,962 and principal and accrued 30, 2047. The loan is | | | | | |
| | | _ | 1,405,227 | | 1,405,227 | |
| | Total debt | | 11,871,746 | | 12,006,411 | |
| | Less: current portion | | (105,617) | | (134,445) | |
| | Less: unamortized debt issuance costs | | (342,603) | | (355,780) | |
| | Non-current portion | \$ | 11,423,526 | \$ | 11,516,186 | |
| Maturities on long-term debt are as | s follows: | | | | | |
| Years ending June 30, | | | | | | |
| 2022 2023 2024 2025 2026 Thereafter | | | | \$ | 105,617 110,797 1,030,127 395,303 400,791 9,829,111 | |

(9) Line of credit

Total

For the years ended June 30, 2021 and 2020, the Organization maintained a \$5,000,000 and \$3,000,000 line of credit, respectively. The line available during the year ended June 30, 2021 was renewed with a new maturity date of January 31, 2022 and accrues interest at 1.8% over LIBOR (1.92% at June 30, 2021). The line available during the year ended June 30, 2020 matured on November 27, 2020 and accrued interest at 1.8% over LIBOR (1.98% at June 30, 2020). At June 30, 2021 and 2020, there was no outstanding balance on the line. The line is collateralized by all business assets of Harvesters and subject to certain financial and non-financial covenants.

\$ 11,871,746

(10) Endowment

The Organization's endowment consists of three funds established for a variety of purposes. The funds only include donor-restricted funds. In accordance with FASB ASC 958, net assets associated with endowment funds and funds designated by the Board of Directors are classified and reported based on the existence or absence of donor-imposed restrictions. Endowment funds include the original value at the date of the gift. The earnings on these funds are restricted until appropriated for expenditure on certain programs.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(10) Endowment (continued)

The Organization had the following endowment-related activities:

| | | For the year ended June 30, 2021 | | | | | | | | |
|---------------------------------|---|--|------|---|-------|-----------|--|--|--|--|
| | | ubject to opriation or penditure | appr | subject to opriation or penditure | | Total | | | | |
| Beginning balance, July 1, 2020 | \$ | 148,318 | \$ | 655,877 | \$ | 804,195 | | | | |
| Releases from restriction | | (31,386) | ' | - | | (31,386) | | | | |
| Investment return | | 255,402 | | - | | 255,402 | | | | |
| Total change in endowment funds | | 224,016 | | _ | | 224,016 | | | | |
| Ending balance, June 30, 2021 | \$ | 372,334 | \$ | 655,877 | \$ | 1,028,211 | | | | |
| | | | | nded June 30 | , 202 | 0 | | | | |
| | Subject to appropriation or expenditure | | appr | t subject to opriation or penditure | | Total | | | | |
| Beginning balance, July 1, 2019 | \$ | 137,466 | \$ | 655,877 | \$ | 793,343 | | | | |
| Releases from restriction | | (23,276) | | - | | (23,276) | | | | |
| Investment return | | 34,128 | | - | | 34,128 | | | | |
| | | | | | | | | | | |
| Total change in endowment funds | | 10,852 | | | | 10,852 | | | | |

Return objectives and risk parameters

The Organization has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowments while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds. In order to obtain maximum benefits from the assets of the Organization, the investment goals include achieving long-term growth of capital within specified risk constraints, production of a reasonable rate of return on the investment assets, consistent with the assumption of a prudent level of risk, and protection of the Organization's assets from inflation, so that they will be available for long-term use.

Strategies employed for achieving objectives

To satisfy its long-term rate-of-return objectives, the Organization relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Organization's risk tolerance is moderate. The Organization targets a diversified asset allocation that places a greater emphasis on equity-based and fixed-income investments, selection of quality securities, and seeking lower volatility to achieve its long-term return objectives within prudent risk constraints.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(10) Endowment (continued)

Spending policy

One of the purposes of the Organization's investment assets is to provide funds to cover the portion of the Organization's program costs and organizational expenses that are not covered by fees for services or by donations and grants. Distributions will be made annually at 5% of a trailing 3-year average of the endowments' total market value as of December 31. No distribution will be made if such distribution would bring the value of the fund below the historic dollar value of the fund.

(11) <u>Lease commitments</u>

Harvesters and HCFN have entered into three leases where Harvesters is the lessee and HCFN is the lessor - one real estate lease for the Kansas City, Missouri facility and two equipment leases for assets in both Kansas and Missouri. Additionally, the two entities have a memorandum of occupancy for use of the Topeka, Kansas facility. The memorandum expired December 2018 but automatically renews for one-year periods through December 2027. The Missouri real estate lease expires June 2042 and the equipment leases expire August 2022. All three leases require quarterly payments. The activity related to these leases has been eliminated in the consolidated financial statements and is not reflected in the future minimum rental payments below.

Harvesters also leases equipment used in operations through multiple leases which expire between August 2024 and June 2027.

The future minimum rental payments required under these operating leases are as follows:

| 2022 | | \$ 309,872 |
|------------|---|-----------------|
| 2023 | | 309,872 |
| 2024 | | 309,872 |
| 2025 | | 270,198 |
| 2026 | | 191,229 |
| Thereafter | _ | 142,237 |
| | _ | \$ 1,533,280 |

Total rental expense for the years ended June 30, 2021 and 2020 was \$413,082 and \$304,530, respectively.

(12) Liquidity

| | June 30, | | | | |
|--------------------------------|----------|------------|----|------------|--|
| | 2021 | | | 2020 | |
| Cash | \$ | 21,678,460 | \$ | 13,881,042 | |
| Unconditional promises to give | | 890,275 | | 1,161,465 | |
| Investments | | 6,759,983 | | 5,438,595 | |
| Accounts receivable | | 135,899 | | 184,291 | |
| Other investments | | 5,867 | | 5,697 | |
| Appropriations from endowment | | 40,108 | | 31,386 | |
| | \$ | 29,510,592 | \$ | 20,702,476 | |

Cash - The amount shown above reflects cash on hand available to meet general expenditures within the next year. As of the financial statement date, Harvesters had cash on hand for the purpose of repaying debt and for capital expenditures; this cash is not reflected here.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(12) <u>Liquidity</u> (continued)

Unconditional promises to give - The amount reflected above includes those contributions receivable within one year and which may be used for general expenditures. Contributions with donor-imposed restrictions are included when such gifts are restricted for use in Harvesters regular, ongoing activities.

Investments - Included in the amount above is \$6,660,013 designated as an operating reserve by the Board. Harvesters does not intend to spend from the reserve in the upcoming year, but this amount is available for general expenditures as needed. These funds are invested at the Greater Kansas City Community Foundation. The Foundation reserves the right to make the final decision regarding distributions from the fund.

Accounts receivable – The amount reflected above includes receivables due within the year from Harvesters' agency partners and others.

Other investments - The amount above reflects the guaranteed cash payments due within one year from an annuity owned by Harvesters.

Appropriations from permanent endowment - The Board has appropriated the above amount, in accordance with the spending policy of the endowment, for general expenditures within the next year.

For purposes of analyzing resources available to meet general expenditures over a 12-month period, management and the Board consider all expenditures of the organization, including operating expenses, capital acquisition needs and debt service requirements. Based on these expenditures, the Organization prepares a balanced budget; deficit budgets are not prepared except in unusual circumstances. Liquidity is monitored regularly by management and the Board. In addition to the financial assets shown above, Harvesters has a \$5,000,000 line of credit which it can draw upon as needed. Harvesters may also make short-term borrowings from its operating reserves for temporary liquidity needs.

The outbreak of a coronavirus ("COVID-19"), as further described in Note 19, caused an increase in food insecurity nationally. Donations rose, as people recognized the crisis of hunger. The Organization's liquidity increased as a result, comparably to the average increase in liquidity among the nation's food banks. Cash resources were intentionally left in place at year end, anticipating high need in the coming fiscal year as the pandemic continues.

(13) Retirement plan

The Organization sponsors a non-participatory defined contribution retirement plan for employees following completion of two consecutive years of employment. The Organization contributes 5% of gross compensation of eligible employees. During the years ended June 30, 2021 and 2020, contributions to the plan charged to operations were \$398,622 and \$277,417, respectively.

(14) Board designated reserve

The Board of Directors authorized the establishment of an operating reserve fund. This fund, which is maintained in the Organization's investment account, consisted of \$6,660,013 and \$5,396,000 at June 30, 2021 and 2020, respectively. Reserve funds can be used without board approval for temporary cash flow needs only up to 50% of the total value of the reserve. All other uses require board approval.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(15) Concentrations

During the year ended June 30, 2021, 10% of Harvesters' purchases were with one vendor for the acquisition of food items. In addition, 35% and 29% of Harvesters' donated food came from Feeding America and the United States Department of Agriculture, respectively.

During the year ended June 30, 2020, 11% of Harvesters' purchases were from Feeding America for the acquisition of food items. In addition, 36% and 24% of Harvesters' donated food came from Feeding America and the United States Department of Agriculture, respectively.

(16) Cash flow disclosures

The following is a summary of supplemental cash flow information:

| | June 30, | | | | | |
|---|----------|---------|------|-----------|--|--|
| | | 2021 | 2020 | | | |
| Cash paid for interest | \$ | 205,559 | \$ | 212,284 | | |
| In-kind donations of property and equipment | \$ | 10,000 | \$ | 9,500 | | |
| Purchase of property and equipment with accounts payable and accrued expenses | \$ | 294,632 | \$ | 5,410 | | |
| Refundable advance of donated inventory | \$ | 355,392 | \$ | 3,790,320 | | |

(17) Recent accounting pronouncements

Leases - In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842), which is intended to improve financial reporting about leasing transactions. The ASU affects all companies and other organizations that lease assets such as real estate, office equipment, and vehicles. Under the current accounting model, an organization applies a classification test to determine the accounting for the lease arrangement as an operating or capital lease. The new guidance will require organizations that lease assets to recognize on the statements of financial position the assets and liabilities for the rights and obligations created by those leases. A lessee will be required to recognize assets and liabilities for leases with terms of more than twelve months. Consistent with accounting principles generally accepted in the United States ("U.S. GAAP"), the recognition, measurement, and presentation of expenses and cash flows arising from a lease primarily will depend on its classification as a capital or operating lease. However, unlike current U.S. GAAP, the new ASU will require both types of leases to be recognized on the statements of financial position. The ASU will also require disclosure to help donors and other financial statement users better understand the amount, timing, and uncertainty of cash flows arising from leases. These disclosures include both qualitative and quantitative analysis. This ASU is effective for the Organization's June 30, 2023 consolidated financial statements and early adoption is permitted. The Organization is currently evaluating the effect that the updated standard will have on the consolidated financial statements and related disclosures.

Gifts-in-Kind - In September 2020, the FASB issued ASU No. 2020-07, *Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets (Topic 958*), which is intended to increase transparency regarding contributed nonfinancial assets through presentation and disclosure, both quantitative and qualitative. The ASU affects all not-for-profit entities which receive contributed nonfinancial assets. The new standard will require organizations to present contributed nonfinancial assets as a separate line item on the consolidated statements of activities and changes in net assets.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(17) Recent accounting pronouncements (continued)

Gifts-in-Kind (continued) - The ASU will require the following disclosures:

- a disaggregated disclosure by category of the nonfinancial asset and whether the contributed nonfinancial asset were monetized or utilized during the reporting period;
- if the nonfinancial asset was utilized, a description of the programs or other activities in which those assets were utilized;
- the not-for-profits' policy on monetizing versus utilizing the nonfinancial assets, if applicable;
- a description of any donor restrictions associated with the contributed nonfinancial assets:
- a description of the valuation techniques and inputs used to arrive at a fair value measurement for the assets;
- and the principal market or most advantageous market used to arrive at the fair value measurement if the asset is in a market in which the not-for-profit is prohibited by donor restrictions from selling or utilizing the contributed asset.

This ASU is effective for the Organization's June 30, 2022 consolidated financial statements. The Organization is currently evaluating the effect that the updated standard will have on the consolidated financial statements and related disclosures.

(18) Paycheck Protection Program

During the year ended June 30, 2020, the Organization received a Paycheck Protection Program ("PPP") loan of \$1,556,900, granted by the Small Business Administration under the Coronavirus Aid, Relief, and Economic Security Act ("CARES Act"). PPP loans are considered conditional contributions, with a right-of-return in the form of an obligation to be repaid if a barrier to entitlement is not met. The barrier is that PPP loan funds must be used to maintain compensation costs and employee headcount, and other qualifying expenses (rent, utilities, and interest on mortgages) incurred following the receipt of the funds. During the year ended June 30, 2020, the Organization recognized the amount received as contribution income as qualified expenses occurred and barriers to entitlement were met. A formal request for forgiveness was approved in March 2021. All documentation supporting program compliance has been made available for the financial statement audit.

(19) Risks and uncertainties

On March 11, 2020 the World Health Organization declared the outbreak of COVID-19 a pandemic. The COVID-19 outbreak began disrupting operations and affecting a wide range of industries and their employees. The extent of the impact of COVID-19 on the Organization's operational and financial performance as of June 30, 2021 and 2020 was not deemed significant with exception of the Paycheck Protection Program funding discussed in Note 18 and the large increase in contributions discussed in Note 12, but the extent of the impact moving forward will depend on certain developments, including the duration and spread of the outbreak and the related impact on its programs, employees, and vendors, all of which are uncertain and cannot be predicted. The extent to which COVID-19 may impact the Organization's financial condition or results of operations is uncertain and cannot be reasonably estimated.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(20) Contingencies

The Organization is subject to claims that arise primarily in the ordinary course of business. It is the opinion of management that the disposition or ultimate resolution of such claims will not have a material adverse effect on the consolidated financial position, results of operations, and cash flows of the Organization.

(21) Subsequent events

The Organization has evaluated subsequent events through October 26, 2021, which is the date the consolidated financial statements were available to be issued. Except for the matters discussed below, no significant matters were identified for disclosure during this evaluation.

The Kansas Department of Transportation ("KDOT") has announced plans to reconfigure the section of I-70 in Topeka known as the Polk-Quincy Viaduct. During the fiscal year ending June 30, 2021, KDOT selected a plan design for this project. The design will subject the Organization's Topeka facility to demolition as part of a right-of-way acquisition. The Organization expects to occupy the building until 2024, when construction on the Polk-Quincy project is scheduled to begin. It is not expected to interfere with the expiration of the NMTC described in Note 7. As of the date these consolidated financial statements were available to be issued, the financial impact to the Organization could not be estimated, as the right-of-way proceeds from the disposition of the affected property are unknown, and the cost of acquiring a new facility is unknown. The Organization expects to fulfill its mission despite this dislocation; it does not anticipate disruption of service to food insecure neighbors in Kansas.

On August 27, 2021, the Organization received a grant from the Missouri Department of Social Services in the amount of approximately \$3,300,000 to fund the emergency feeding program related to COVID-19.



SUPPLEMENTARY INFORMATION - CONSOLIDATING STATEMENT OF FINANCIAL POSITION

June 30, 2021

<u>ASSETS</u>

| | Harvesters | | HCFN | | Eliminations | | | Total |
|---|------------|-------------------------|------|------------|--------------|---------------|----|-------------------------|
| CURRENT ASSETS | | | | | | | | |
| Cash | \$ | 21,831,889 | \$ | 277,522 | \$ | _ | \$ | 22,109,411 |
| Unconditional promises to give, current portion, less | · | | | , | | | · | |
| allowance for uncollectibles | | 890,275 | | - | | - | | 890,275 |
| Investments | | 6,759,983 | | - | | - (0.40, 000) | | 6,759,983 |
| Accounts receivable Inventory | | 135,899 11,860,120 | | 949,600 | | (949,600) | | 135,899 11,860,120 |
| Prepaid expenses and other assets | | 344,930 | | - | | - | | 344,930 |
| TOTAL CURRENT ASSETS | | 41,823,096 | | 1,227,122 | | (949,600) | | 42,100,618 |
| LONG-TERM UNCONDITIONAL PROMISES TO GIVE, less current portion above, net of unamortized discount | | 65,495 | | - | | - | | 65,495 |
| LEVERAGE LOAN RECEIVABLE | | 7,688,500 | | _ | | _ | | 7,688,500 |
| PROPERTY AND EQUIPMENT, at cost, less | | ,, | | | | | | , , |
| accumulated depreciation | | 2,856,011 | | 14,571,308 | | - | | 17,427,319 |
| ANNUITIES | | 12,463 | | - | | - | | 12,463 |
| INVESTMENTS - ENDOWMENT | | 1,028,211 | | - | | - | | 1,028,211 |
| TOTAL ASSETS | \$ | 53,473,776 | \$ | 15,798,430 | \$ | (949,600) | \$ | 68,322,606 |
| | LIAB | ILITIES | | | | | | |
| CURRENT LIABILITIES | ' | | | | | | | |
| Accounts payable and accrued expenses | \$ | 3,327,905 | \$ | - | \$ | (949,600) | \$ | 2,378,305 |
| Refundable advance | | 3,434,928 | | - | | - | | 3,434,928 |
| Current portion of long-term debt | | 105,617 | | | | - | | 105,617 |
| TOTAL CURRENT LIABILITIES | | 6,868,450 | | - | | (949,600) | | 5,918,850 |
| LONG-TERM DEBT, less current portion above | | 986,129 | | 10,437,397 | | | | 11,423,526 |
| TOTAL LIABILITIES | | 7,854,579 | | 10,437,397 | | (949,600) | | 17,342,376 |
| | NET | <u>ASSETS</u> | | | | | | |
| NET ASSETS WITHOUT DONOR RESTRICTIONS | | | | | | | | |
| Foodbank | | | | | | | | |
| Undesignated Board designated - reserve | | 29,037,413 6,660,013 | | 5,361,033 | | | | 34,398,446 6,660,013 |
| Total foodbank | | 35.697.426 | | 5.361.033 | | - | | 41.058.459 |
| Contributed food | | 6,789,242 | | - | | | | 6,789,242 |
| TOTAL NET ASSETS WITHOUT DONOR RESTRICTIONS | | 42,486,668 | | 5,361,033 | | - | | 47,847,701 |
| NET ASSETS WITH DONOR RESTRICTIONS | | 3,132,529 | | | | - | | 3,132,529 |
| TOTAL NET ASSETS | | 45,619,197 | | 5,361,033 | | - | | 50,980,230 |
| TOTAL LIABILITIES AND NET ASSETS | \$ | 53,473,776 | \$ | 15,798,430 | \$ | (949,600) | \$ | 68,322,606 |
| | | | | | | | | |

SUPPLEMENTARY INFORMATION – CONSOLIDATING STATEMENT OF ACTIVITIES

For the Year Ended June 30, 2021

| | Harvesters | | HCFN | | Eliminations | | Total |
|---|------------|--------------------------|------|----------------|--------------|-------------|------------------------------|
| NET ASSETS WITHOUT DONOR RESTRICTIONS | | | | | | | |
| OPERATING SUPPORT AND REVENUE | | | | | | | |
| Contributions | \$ | 37,586,441 | \$ | - | \$ | (895,598) | \$ 36,690,843 |
| Contributed food received | | 124,417,634 | | - | | - | 124,417,634 |
| Handling fees and other revenues | | 543,171 | | - | | - | 543,171 |
| Rental income | | - | | 1,076,846 | | (1,076,846) | - |
| Investment return | | 883,892 | | 901 | | - | 884,793 |
| Special events | | 227,914 | | - | | - | 227,914 |
| Net assets released from restriction | | 1,163,706 | | | | | 1,163,706 |
| TOTAL OPERATING SUPPORT AND REVENUE | | 164,822,758 | | 1,077,747 | | (1,972,444) | 163,928,061 |
| EXPENSES | | | | | | | |
| Foodbank program | | 26,742,478 | | 1,011,925 | | (1,917,123) | 25,837,280 |
| Contributed food distributed | | 123,292,451 | | - | | - ' | 123,292,451 |
| Management and general | | 2,284,190 | | 60,614 | | (29,042) | 2,315,762 |
| Fund development | | 2,432,844 | | 17,486 | | (26,279) | 2,424,051 |
| TOTAL EXPENSES | | 154,751,963 | | 1,090,025 | | (1,972,444) | 153,869,544 |
| CHANGES IN NET ASSETS | | | | | | | |
| BEFORE DEPRECIATION, INTEREST ATTRIBUTABLE TO | | | | | | | |
| DEBT ISSUANCE COSTS, AND LOSS ON SALE OF ASSETS | | 10,070,795 | | (12,278) | | _ | 10,058,517 |
| - | | 10,070,700 | | (12,270) | | | 10,000,017 |
| OTHER EXPENSE | | | | | | | |
| Depreciation expense | | (475,669) | | (690,692) | | _ | (1,166,361) |
| Interest attributable to debt issuance costs | | (,,,,,, | | (13,177) | | _ | (13,177) |
| Loss on sale of assets | | (4,257) | | - | | _ | (4,257) |
| TOTAL OTHER EXPENSE | | (479,926) | _ | (703,869) | | | (1,183,795) |
| - | | (170,020) | | (100,000) | | | (1,100,100) |
| CHANGES IN NET ASSETS WITHOUT DONOR | | | | | | | |
| RESTRICTIONS | | 9,590,869 | | (716,147) | | _ | 8,874,722 |
| NET ASSETS WITH DONOR RESTRICTIONS | | 5,555,555 | | (* ***, * ***) | | | -,, |
| Contributions with donor restrictions | | 2,018,386 | | | | | 2,018,386 |
| | | 255,402 | | - | | - | 255,402 |
| Endowment earnings Releases from net assets with donor restrictions | | , | | - | | - | , |
| CHANGES IN NET ASSETS WITH DONOR RESTRICTIONS | | (1,163,706) 1,110,082 | | | | | (1,163,706) 1,110,082 |
| | | | | | | | |
| NET ASSETS, BEGINNING OF YEAR | | 34,918,246 | | 6,077,180 | | - | 40,995,426 |
| NET ASSETS, END OF YEAR | \$ | 45,619,197 | \$ | 5,361,033 | \$ | | \$ 50,980,230 |

NOTES TO SUPPLEMENTARY INFORMATION - CONSOLIDATING STATEMENTS

(1) Principles of consolidation

The consolidated financial statements include the accounts of Harvesters and HCFN (the "Organization"). All inter-organizational accounts and transactions have been eliminated.

The supplemental consolidating financial statements therefore show certain accounts and transactions that were otherwise eliminated in the consolidated financial statements, which are described below.

At June 30, 2021 and 2020, Harvesters owed HCFN \$949,600 and \$916,670, respectively, for the net effect of straight-line rent expense and certain operating expenses and capital expenditures.

During the years ended June 30, 2021 and 2020 HCFN leased certain property and equipment at the Kansas and Missouri locations to Harvesters. As a part of these transactions, HCFN recognized rental revenue, and Harvesters recognized rental expense, of \$981,248 and \$981,266 during the years ended June 30, 2021 and 2020, respectively. Under the Kansas property memorandum of occupancy, HCFN donated the use of the space to Harvesters. This resulted in in-kind donation revenue and in-kind rental expense for Harvesters of \$94,661 and \$91,886 during the years ended June 30, 2021 and 2020, respectively. For HCFN, this resulted in in-kind rental revenue and donation expense of \$95,598 and \$92,805 during the years ended June 30, 2021 and 2020, respectively. Additionally, HCFN made monetary donations to Harvesters, which resulted in contribution expense of \$800,000 and \$557,973, and Harvesters recognized contribution revenue of \$800,000 and \$557,973, during the years ended June 30, 2021 and 2020, respectively

At June 30, 2021 and 2020, as a result of the Missouri property lease, Harvesters recognized a deferred rent payable and HCFN recognized a deferred rent receivable of \$998,795 and \$963,584, respectively, for the difference between the straight line rent expense and the actual rent paid. Harvesters and HCFN also recorded an intercompany in-kind pledge receivable and payable, respectively, that is ultimately eliminated from the consolidated financial statements.